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LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6404
BILL NUMBER: SB 176

NOTE PREPARED: Feb 4, 2014
BILL AMENDED: Feb 3, 2014

SUBJECT: Central Indiana Transit.

FIRST AUTHOR: Sen. Miller Patricia
FIRST SPONSOR: Rep. Torr

BILL STATUS: As Passed Senate

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides for the establishment or expansion of public transportation services in an eligible county through local public questions placed on the ballot under ordinances adopted by the fiscal body of the eligible county.

The bill provides that Delaware County, Hamilton County, Hancock, County, Johnson County, Madison County, and Marion County are eligible counties.

The bill authorizes eligible counties to fund approved public transportation projects through various parts of the local option income tax rates that are available under current law for other purposes and by imposing on C corporations a county income tax or a county employment tax. It also specifies that fares must cover 25% of the operating costs of a transportation system established or expanded under the bill.

The bill authorizes interlocal agreements, public-private partnerships, and bonding with respect to a public transportation project.

The bill provides that if a transportation project is approved in an eligible county, transportation services must be provided through the transportation project throughout the eligible county and must be made available under this article to all citizens of the county. It prohibits an eligible county from carrying out a light rail project.

The bill provides that in the case of a public transportation corporation in an eligible county that has approved a local public question, labor agreements may provide for the nonbinding mediation of salaries, wages, and salary- and wage-related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off.

The bill provides that the provisions in the bill do not create a moral obligation of the state. It also specifies that no general revenues of the state may be used to pay for a transportation project or service under the provisions in the bill (but that this restriction does not apply to distributions from the Public Mass Transportation Fund).

Effective Date: Upon passage; July 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* DOR will incur additional expenses to revise forms, instructions, and software applications. The DOR's current level of resources should be sufficient to implement this bill.

Department of Local Government Finances (DLGF): The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: *Tax Exemptions:* Bonds issued for public transportation projects created by the bill, including interest and proceeds on the bonds, would be exempt from Indiana taxes, except for the Financial Institutions Tax and the Inheritance Tax. [Note: (1) Interest received on bonds issued by the state of Indiana or political subdivisions is currently exempt from Indiana income tax. (2) HEA 1001-2013 repealed the inheritance tax applicable to transfers by decedents who die after December 31, 2012.]

Explanation of Local Expenditures: (Revised) *Ballot Question:* If the fiscal body of an eligible county adopts an ordinance to put a local public question regarding a public transportation project on the ballot, additional costs may be incurred in adding the question to existing ballots, if the election will be held at the primary, general, or municipal election at which all the registered voters of the eligible county are entitled to vote. However, if the question is placed in a special election, additional costs may accrue, including ballot printing costs and precinct election board expenditures. These additional costs are to be paid by the eligible counties.

If the public question is approved, the eligible county fiscal body must pass an ordinance to institute the taxes associated with the public question (the public question must include the specific tax rates associated with the proposed public transportation project). If the public question is defeated, the fiscal body may pass an ordinance to place the public question on the ballot again, not more than twice in any seven-year period.

The bill states that a political subdivision may not promote a position on the local public question that uses public employees, public resources, or public funds in order to support that position. Public officials may personally advocate for or against a position on a local public question, as long as it is not done by using public funds.

Explanation of Local Revenues: *Summary:* This bill provides two new revenue sources to fund a public transportation project: additional LOIT collections and one of either: (1) a county corporate income tax or; (2) a county corporate employment tax. For more details on these new revenue sources, please see *Additional Information* below.

The bill defines a public transportation system as any common carrier of passengers for hire and defines a public transportation project as an action to plan, design, acquire, construct, enlarge, improve, renovate, maintain, equip, or operate a public transportation system in an eligible county. According to the bill, an eligible county may carry out only one public transportation project.

If a public transportation project is created under the bill, at least 25% the operating expenses of the public transportation system must be paid for through fares and at least 10% of the operating expenses of the public transportation system must be paid for through either the county corporate income tax or a county corporate employment tax. According to the bill, the purchase of equipment or other personal property that has a useful life of three years or more is considered a capital expenditure.

The bill authorizes eligible counties to utilize interlocal agreements, public-private partnerships, and bonding with respect to public transportation projects and public transportation systems. Any bonds associated with a public transportation project may not have a maturity longer than 20 years, and eligible counties may not levy ad valorem property taxes to repay these bonds. Additionally, bonds issued to pay for public transportation projects do not constitute a moral obligation on the part of the state. No general tax revenues (with the exception of Public Mass Transportation Fund distributions) may be used to pay for a public transportation project. The bill precludes the use of light rail in a public transportation project in an eligible county.

The bill provides that public transportation corporations in eligible counties that move forward with a public transportation project under the bill must enter into labor agreements, and these labor agreements may provide for the nonbinding mediation of salaries, wages, and salary- and wage-related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off.

Additional Information : *Local Option Income Taxes (LOIT):*This bill grants Delaware, Hancock, Johnson, and Madison Counties the authority to impose an additional rate under the LOIT for Property Tax Levy Freeze (LFPL) to fund an approved public transportation project. The LFPL was initially established as a supplemental rate component that allows local governments to 'freeze' their property tax levies and use the income tax revenue to replace the foregone property tax levy increases. The LFPL can be adopted under either the County Adjusted Gross Income Tax (CAGIT) or the County Option Income Tax (COIT). The LFPL rate may not exceed 1.0%.

The additional rate must be at least 0.10% and may not exceed 0.25%. The certified distribution attributable to this component of the LFPL may only be used to fund the public transportation project. It may not be used as a property tax replacement distribution. This bill does not alter the existing rate limitations for the specified tax, it only provides a new use for the revenue.

This bill authorizes Hamilton County and Marion County to use the revenue collected from the additional County Economic Development Income Tax (CEDIT) for Homestead Relief rate to fund an approved public transportation project. The CEDIT for Homestead Relief was initially established to allow counties to exceed the statutory LOIT rate limits by 0.25% to provide additional homestead and residential credits to mitigate the effects of the 100% business inventory deduction on homeowners and other residential property owners. Currently, neither Marion County or Hamilton County have imposed this rate. This bill does not alter the existing rate limitations for the specified tax, it only provides a new use for the revenue.

The table below contains estimates of the potential revenue the counties could collect if they impose the full 0.25% rate in the respective LOITs.

Potential LOIT Revenue at a 0.25% Rate ($ in Millions)			
County	**CY 2014**	**CY 2015**	**CY 2016**
Delaware	$4.46	$4.43	$4.53
Hamilton	$29.25	$30.56	$32.38
Hancock	$4.49	$4.57	$4.72
Johnson	$8.95	$9.16	$9.52
Madison	$5.16	$5.19	$5.35
Marion	$45.40	$44.49	$45.63

County Corporate Income Tax: This bill allows an eligible county to impose a county corporate income tax to collect revenue for an approved public transportation project. [An eligible county may either impose the county corporate income tax or the county corporate employment tax, but may not impose both.] The tax is imposed on C corporations with a Corporate Adjusted Gross Income (AGI) Tax obligation doing business within an eligible county. A corporation's AGI is apportioned to a county through a three-factor allocation formula. A county must impose a tax rate sufficient to generate a revenue amount at least equal to 10% of the estimated average annual operating costs for the first five years of the project and each five-year period thereafter.

Taxpayers will file the county corporate income tax when they file their state Corporate AGI Tax. The revenue collected in a particular calendar year through the county corporate income tax will be distributed to the county on the first regular business day of July in the following year. If a county adopts an ordinance to impose the county corporate income tax, the tax will go into effect on January 1 of the following calendar year. CY 2015 is the first year this tax may be imposed.

The table below contains the estimated revenue that could potentially be collected if an eligible county adopts a 1% county corporate income tax.

Potential County Corporate Income Tax Revenue at a 1% Rate ($ in Millions)			
County	**CY 2014**	**CY 2015**	**CY 2016**
Delaware	$0.98 -$1.04	$0.98 - $1.04	$0.99 - $1.05
Hamilton	$3.56 - $4.45	$3.58 - $4.47	$3.59 - $4.49
Hancock	$0.51 - $0.53	$0.51- $0.53	$0.52 - $0.53
Johnson	$1.26 - $1.33	$1.26 - $1.34	$1.27 - $1.34
Madison	$0.87 - $0.88	$0.87 - $0.88	$0.87 - $0.89
Marion	$14.90 - $19.37	$14.97 - $19.46	$15.04 - $19.55

Several data sources were used to estimate the county corporate income tax revenue. Gross receipts by county were estimated by deriving ratios from the 2007 Economic Census and applying those ratios to 2011 County Business Patterns data. Then data from the Internal Revenue Service and Indiana Corporate AGI returns were used to determine net taxable income by business organization type. The base-year county corporate income tax estimates were forecasted using the Corporate AGI Tax growth rates established in the FY 2013 - FY 2015 State Revenue Forecast.

County Corporate Employment Tax: This bill allows an eligible county to impose a monthly county corporate employment tax to collect revenue for an approved public transportation project. [An eligible county may either impose the county corporate employment tax or the county corporate income tax, but may not impose both.] The tax is imposed on C corporations with a Corporate AGI Tax obligation doing business within an eligible county. The tax equals the total number of full-time employees principally employed within the county during that month multiplied by the applicable tax rate. Each month, the employer will file a county corporate employment tax return to the appropriate county treasurer.

A county must impose a tax rate sufficient to generate a revenue amount at least equal to 10% of the estimated average annual operating costs for the first five years of the project and each five-year period thereafter. If a county adopts an ordinance to impose the county corporate employment tax, the tax will go into effect on January 1 of the following calendar year. CY 2015 is the first year this tax may be imposed.

The table below contains the estimated revenue that could potentially be collected if an eligible county adopts a $10 county corporate employment tax.

Potential County Corporate Employment Tax Revenue at a $10 Rate ($ in Millions)			
County	**CY 2014**	**CY 2015**	**CY 2016**
Delaware	$1.75	$1.76	$1.77
Hamilton	$5.42	$5.64	$5.87
Hancock	$0.87	$0.89	$0.91
Johnson	$1.96	$2.00	$2.05
Madison	$1.56	$1.59	$1.61
Marion	$24.70	$25.09	$25.44

The county corporate employment tax estimates were computed from a simulation developed using data from 2011 County Business Patterns, 2012 Quarterly Census of Employment and Wages, and Global Insights County-level forecast.

Farebox Revenue: The bill requires that at least 25% of the operating expenses of a public transportation system be paid for out by fares or charges to consumers utilizing the system. This likely will require the increase of fare revenue in the event that a public transportation project is approved in an eligible county that already operates a public transportation system, although the exact fare increase (per rider) that will be necessary to fulfill this requirement is unknown at this time. IndyGo, the public transportation corporation operating Marion County's current public transportation system, has fare revenue that generates roughly 17% of its total operating expenses (as of 2012).

State Agencies Affected: Department of State Revenue; Department of Local Government Finance, IFA.

Local Agencies Affected: Delaware, Hamilton, Hancock, Johnson, Madison, and Marion Counties.

Information Sources: U.S. Census Bureau, *2007 Economic Census - Economy-Wide Key Statistics*, 2007; U.S. Census Bureau, *2011 County Business Patterns: Geography Area Series - Indiana*, May 16, 2013; U.S. Census Bureau, *2011 County Business Patterns: Geography Area Series by Legal Form of Organization,* May 16, 2013;

Internal Revenue Service, *Statistics of Income - Table 10. Nonfarm Sole Proprietorship Returns: 1998-2010,* 2011; Internal Revenue Service, *Statistics of Income - Table 11. Partnership Returns 1999-2010,* 2011; Internal Revenue Service, *Statistics of Income - Table 13. Corporation Income Tax Returns 1999-2010,* 2011; Bureau of Labor Statistics, *Quarterly Census of Employment and Wages Q1-2012 through Q4-2012,* accessed on November 14, 2013; Global Insights, *Indiana County-level Forecast*, June, 2013; State Budget Agency, *2013 - 2015 Revenue Forecast*, April 16, 2013; *IndyGo 2012 Comprehensive Annual Financial Report* (www.indygo.net/inside-indygo/financial-information/historical-financial-information); *Indiana Handbook of Taxes, Revenues, and Appropriations* (Fiscal Year 2013).

Fiscal Analyst: Stephanie Wells, 232-9866; Heath Holloway, 232-9867; Bob Sigalow, 232-9859.